

**The Missoula Plan:
A Solution For
Intercarrier Compensation Reform**

**South Carolina Missoula Plan Workshop
May 31, 2007**

Intercarrier Compensation Reform Is Necessary

- **The current system is broken**
 - Disparate rates for similar services creates a system rife with arbitrage
 - Industry spends vast resources:
 - Negotiating
 - Arbitrating
 - Litigating
 - Policing
 - Participating in multiple PUC and FCC proceedings
 - Erosion of implicit subsidies in intercarrier compensation system threatens the concept of universal service; rural areas are at a high-risk of being left behind
- **The shift to a broadband environment undermines a fundamental source of revenues used to support the underlying costs of the current network**
 - Access revenues will not be available in an IP and broadband environment
 - Without access revenues, companies will need another revenue source to cover costs
 - If companies do not have an alternative revenue source they will be unable to pay the debt on existing infrastructure and will not be able deploy the next generation infrastructure, particularly in high-cost rural areas

NARUC Task Force on Intercarrier Compensation

- **April 2003 – NARUC forms Task Force on Intercarrier Compensation – draws widespread participation from all industry segments**
- **NARUC Task Force conducts twelve workshops between July 2004 and January 2006**
- **4th quarter 2005 – NARUC Task Force asks for industry-driven plan**
- **March 2006 – Industry sub-group delivers *Missoula Plan* to NARUC Task Force**
- **April 21, 2006 – Industry participants “vote” on whether to support Missoula Plan**
- **Plan supporters develop additional Plan details and conduct outreach to broaden support**
- **Details of comprehensive Missoula Plan submitted to NARUC Task Force**
- **July 24, 2006 – NARUC files Missoula Plan with FCC**
- **July 25, 2006 – FCC seeks comment on Missoula Intercarrier Compensation Reform Plan**
- **January 30, 2007- Missoula Supporters and IN, ME, NE, VT & WY Commissions file FBM**

The Missoula Plan is a Reasonable Reform Plan - And An Essential Transition to a Broadband Environment

- **To re-iterate, the shift to a broadband environment undermines a fundamental source of revenues used to support the underlying costs of the current network**
- **The Missoula Plan provides a balanced solution for consumers, the industry and the States - before a crisis develops**
- **The Plan begins to size the level of explicit federal funding necessary in a broadband environment – essential for rural areas**
- **The Federal Benchmark Mechanism (FBM) is a significant enhancement to the Plan and provides states with an additional tool to address intercarrier compensation reform issues**
- **The Plan establishes a reasonable transition period for implementation in order to minimize impacts on all parties**

Why the Plan is Good for Consumers and the Industry

- The Plan establishes the path to long-overdue stability in the telecom market and gives customers of all technologies in all service areas the benefits of that stability
- The Plan supports *today's* (circuit-switched)networks AND the transition to *tomorrow's* (broadband/VoIP) multi-modal telecommunications systems
- A fully funded Restructure Mechanism will enhance universal service and provide long-term sustainability for rural areas that does not exist today– the plan increases the likelihood of rural broadband availability
- Minimizes or eliminates distinctions between types of traffic, (e.g., local, access, wireless, ISP-bound, VoIP) by generally *unifying rates* and reduces regulatory-induced arbitrage
- Significantly reduces disputes and litigation at the state and federal levels
- Establishes an interconnection framework that balances the financial responsibilities among carriers and technologies
- Creates comprehensive phantom traffic solution, further reducing arbitrage
- Recognizes states that proactively take/have taken action to reduce or unify intercarrier rates

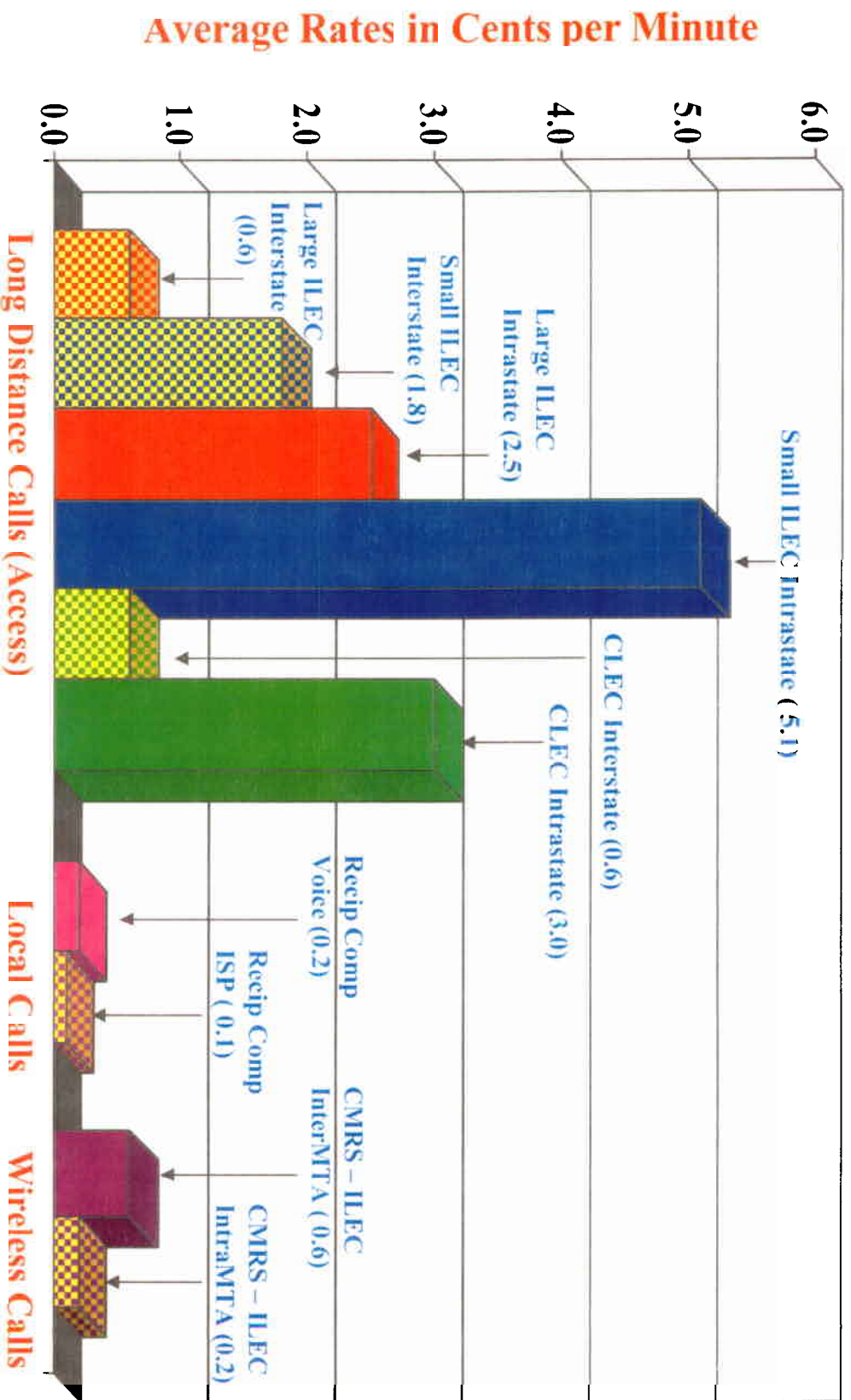
Missoula Plan Overview

- **Six-year plan unifies intercarrier charges for majority of nation's lines and moves *all intercarrier rates for all traffic* closer together**
- **Some parts of the Plan are discretionary for States, all others are mandatory**
- **Tailors reform based on three categories of carrier, or *Tracks***
- **Provides alternative sources for recovery through federal SLC increases and a new Restructure Mechanism**
- **Establishes uniform default interconnection rules**
- **Addresses phantom traffic and other intractable industry disputes such as VoIP-to-PSTN compensation, Virtual FX and IntraMTA wireless compensation**
- **Requires NPRMs at Steps 4 and 6 to determine whether additional reform is appropriate**
- **Provides additional funding to: insulate Lifeline customers from SLC increases; establish an Early Adopter Fund; and increase certain high cost funding**
- **Creates an incentive regulation option for qualifying rate-of-return ILECs**

Intercarrier Compensation Reform “Dials”

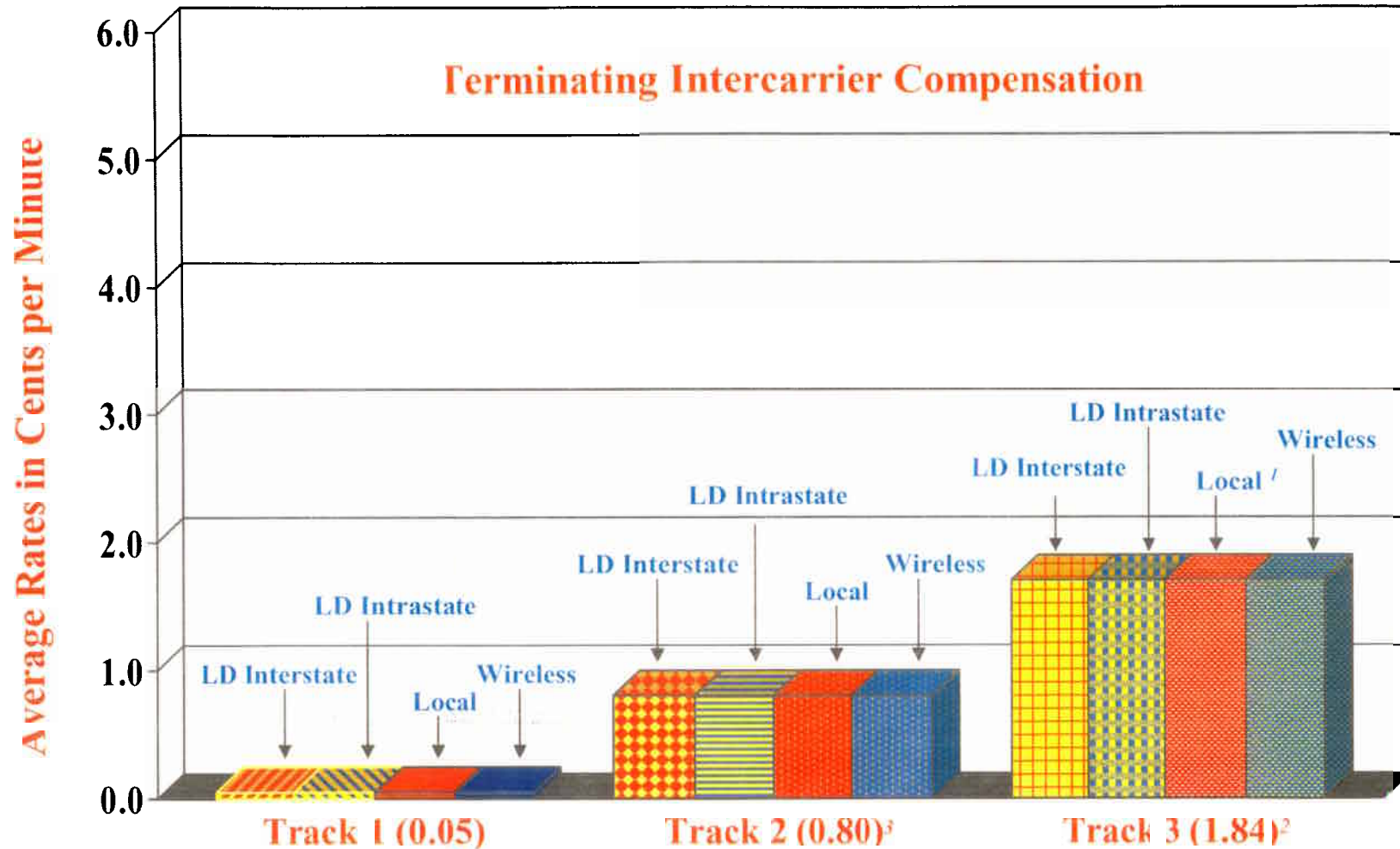
- ☐ **Intercarrier Compensation Charges**
- ☐ **Subscriber Line Charges**
- ☐ **Restructure Mechanism**
- ☐ **Federal Benchmark Mechanism**

Today's Broken Inter-carrier Compensation System



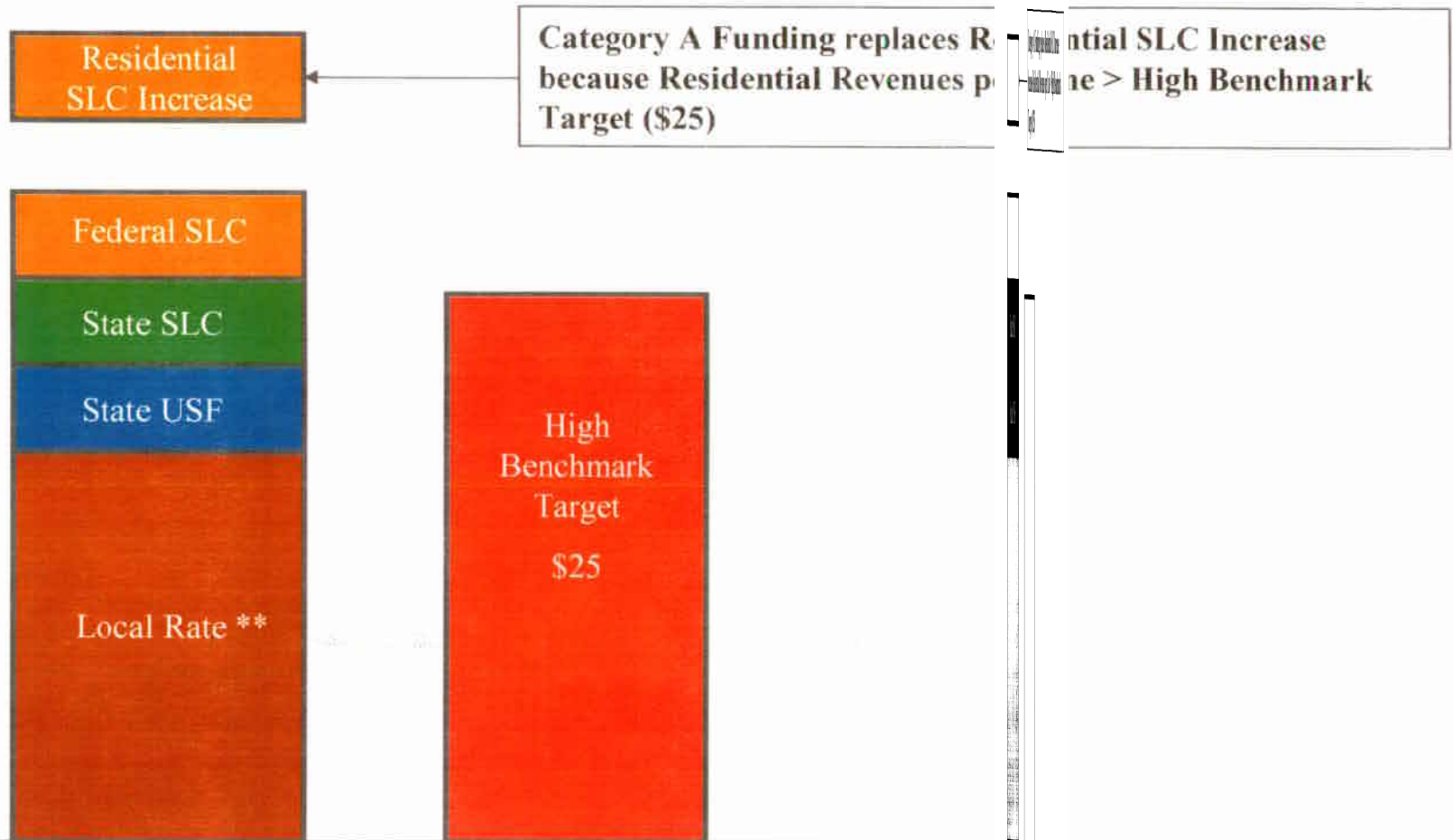
High (¢/min):	1.5	8.9	0.3	0.4	34.9	0.7	0.2	35.9	0.3	0.1	8.9	0.3
Low (¢/min):	0.5	0.3	0.4	0.7	0.2	0.4	0.3	0.0	0.0	0.0	0.2	0.0

Missoula Plan Intercarrier Compensation Solution



1. Compensation for EAS traffic remains under existing arrangements.
2. Reciprocal compensation rates capped at interstate access rate levels. Access traffic capped at interstate access rate levels. Reflects average interstate rates for Track 3 carriers for illustrative purposes. Actual rates may vary by carrier.
3. Assumes end office switching rate of 0.05 (same as Track 1 rate) and 0.75 for common transport and tandem switching.

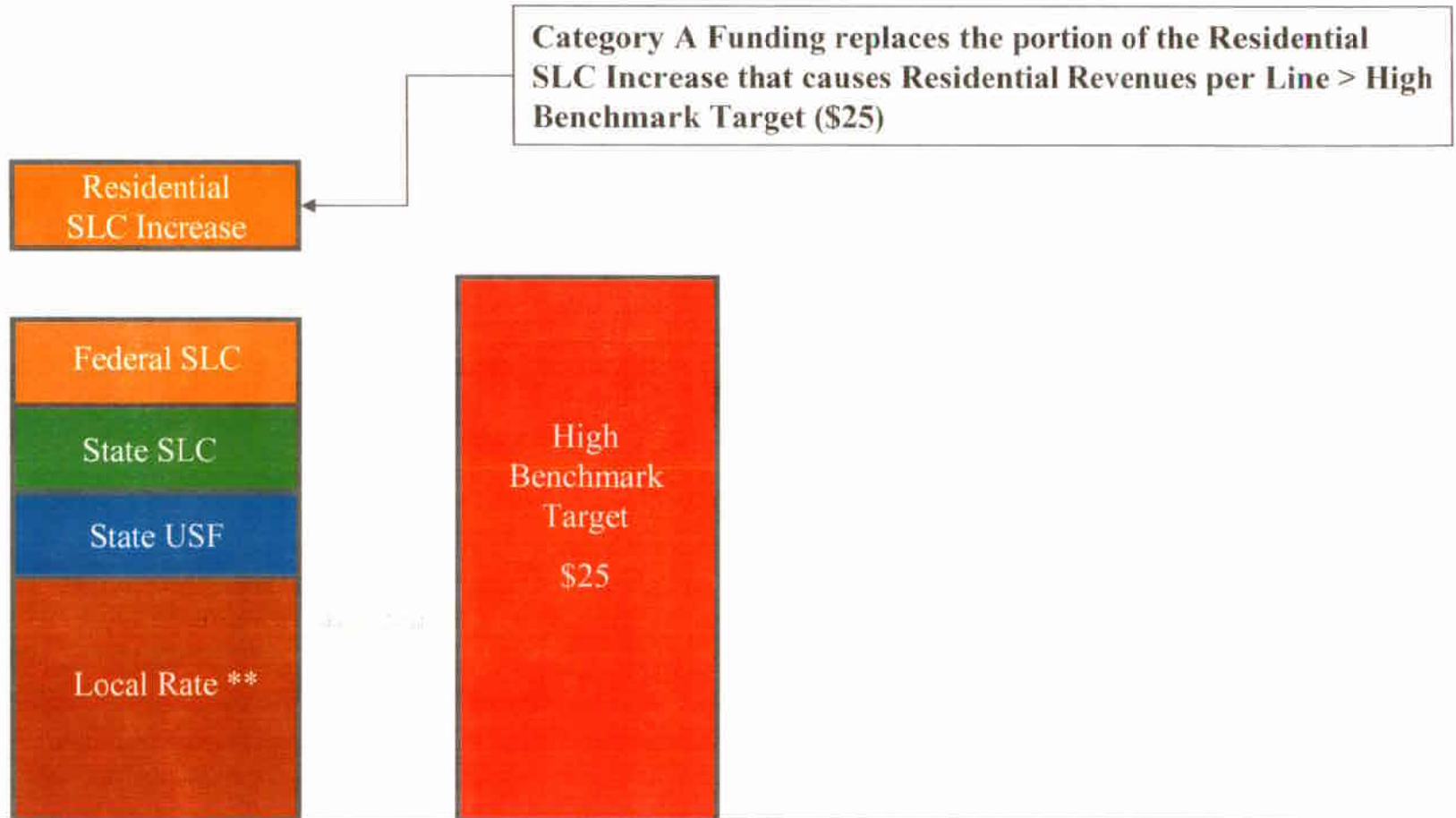
Federal Benchmark Mechanism: Category A Funding



Residential Revenues per Line

** Includes Mandatory EAS

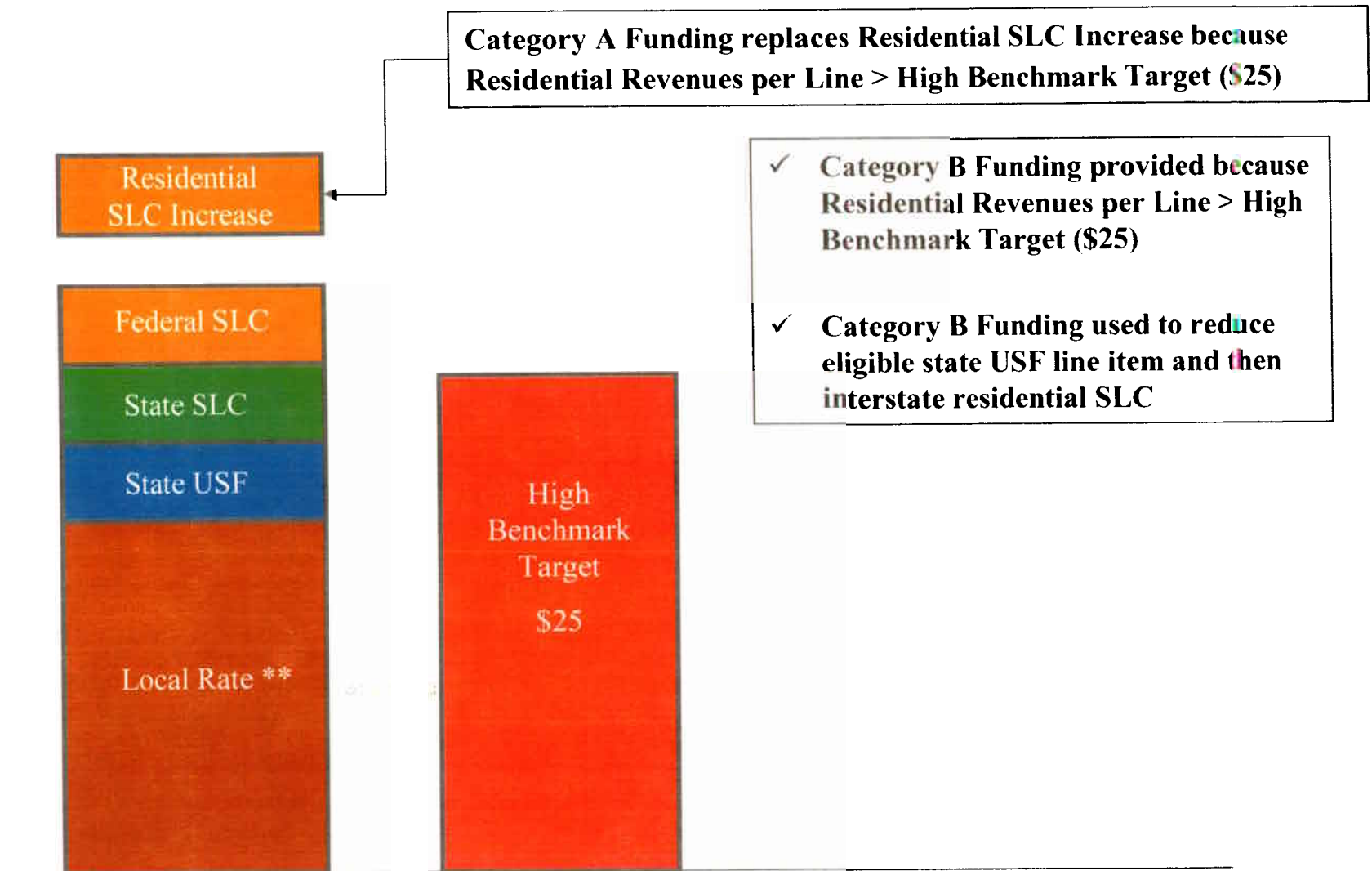
Federal Benchmark Mechanism: Category A Funding



Residential Revenues per Line

** Includes Mandatory EAS

Federal Benchmark Mechanism: Category B Funding



Residential Revenues per Line

** Includes Mandatory EAS

Preliminary Estimate of Federal Benchmark Mechanism Financials

- Category A Funding.....\$579M
 - Category B Funding.....\$141M
 - Category C Funding.....\$111M
 - Low Rate Adjustment.....(\$25M)
 - Net.....\$806M*
-

* The net impact is \$606M more than the \$200M reflected in the original Missoula Plan filing, the \$606M accounts for approximately \$0.08 of the \$0.38 per connection charge contribution estimate

“Dialing In” Intercarrier Compensation Reform

	<u>Track 1</u>	<u>Track 2</u>	<u>Track 3</u>
Dial No. 1 --- Intercarrier Rates			
Origination	\$0.0045	\$0.0095	\$0.0184
Termination	\$0.0005	\$0.0080	\$0.0184
Dial No. 2 --- End User Rates			
Interstate SLC cap increases	\$3.50/Line/Month	\$2.25/Line/Month	\$2.25/Line/Month
Dial No. 3 --- Restructure Mechanism		\$1.375B	

Restructure Mechanism		\$1.375B	\$0.19
Federal Benchmark Mechanism		\$0.806B	\$0.11
Universal Service Fund Adjustments		\$0.562B	\$0.08
Additional Lifeline	\$0.10		
High Cost Fund Adjustments	\$0.37		
Total ICR Support		\$2.743B	\$0.38
Total ICR Support recovered with a monthly (per connection unit) charge			

PERSONAL	MEMORANDUM FOR THE RECORD	SUBJECT: [REDACTED]	DATE: [REDACTED]	BY: [REDACTED]	FOR THE RECORD
[REDACTED]					

SOUTH CAROLINA

State	Restructure Mechanism		Federal Benchmark Mechanism					NET RM and FBM
			Category A	Category B	Category C	Low Rate Adjustment	Net FBM	
SC [#]	\$ 10,037,226		\$ 6,323,988	\$ 162,986	\$ 9,837,014	\$ -	\$ 16,323,988	\$ 26,361,214

COLUMN EXPLANATION:

Dollar Impacts

Restructure Mechanism - This is estimated funding to be paid to carriers to replace access and other intercarrier losses under the Missoula Plan

Category A - This funding to high rate areas is paid to carriers to avoid SLC increases.

Category B - This funding to very high rate areas is paid to states and carriers to reduce state USF contributions or existing SLCs.

Category C - This funding is to states and carriers to reduce state USF contributions in early adopter areas not fully benefiting from Categories A or B.

Low Rate Adjustment - This is the reduction in RM funding in areas with low rates

Net FBM - Sum of all FBM columns

Net RM and FBM - Sum of Restructure Mechanism and Federal Benchmark Mechanism

IMPACT EXPRESSED PER RESIDENTIAL CUSTOMER

State Code	Total Residential Lines	Dollar Impacts (\$ 000)					Impact per Line per Month (\$)**	
		RM	Federal Benchmark Mechanism	Lifeline	HCLF	Total Impact	Total Impact on Residential Customers	Incremental Assessment (All Customers)
SC*	1,404,544	\$ 10,037	\$ 16,324	\$ 423	\$ 7,556	\$ 34,340	\$ 2.04	\$ 0.38

IMPACT EXPRESSED PER RESIDENTIAL CUSTOMER

Line	RM	Federal Benchmark Mechanism	Lifeline	HCLF	Total Impact	Total Impact on Residential Customers	Incremental Assessment (All Customers)
1	10,037	16,324	423	7,556	34,340	2.04	0.38

NOTES:
 * SC - South Carolina
 ** Impact per Line per Month (\$)** - Total impact divided by residential lines (assumes all benefits flow to residential lines)
 *** Incremental Assessment - estimate based on calculation on following tab. Includes all Missoula Plan and FBM impacts, and CLEC money.
 **** Net Benefit to Residential Customers - Net of preceding two columns

COLUMN EXPLANATION:

Dollar Impacts

RM - Restructure Mechanism" funds are paid to carriers to replace access and other intercarrier losses under the Missoula Plan

Federal Benchmark Mechanism - Paid to carriers and states under the Federal Benchmark Mechanism Amendments to the Missoula Plan

Lifeline - The incremental cost to the Lifeline program from changes proposed in the Missoula Plan

HCLF - The incremental change to the High Cost Loop Support program from changes proposed in the Missoula Plan

Total Impact - This is the sum of the preceding program totals

Impact Per Line per Month

Total Impact on Residential Customers - Total impact divided by residential lines (assumes all benefits flow to residential lines)

Incremental Assessment - estimate based on calculation on following tab. Includes all Missoula Plan and FBM impacts, and CLEC money.

Net Benefit to Residential Customers - Net of preceding two columns